

Office Q3 2020

| | YoY Chg | 12-Mo. Forecast |
|------------------------------------|---------|-----------------|
| 11.8% Vacancy Rate | ▲ | ▲ |
| -426K Net Absorption, SF | ▲ | ▼ |
| \$20.15 Asking Rent, PSF | ▲ | ▼ |

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

| | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| 1.1M Pittsburgh Employment | ▼ | ▲ |
| 14.2% Pittsburgh Unemployment Rate | ▲ | ▼ |
| 8.8% U.S. Unemployment Rate | ▲ | ▼ |

Source: BLS

ECONOMIC OVERVIEW: Unemployment Decreases as Inflection Point Reached

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#). On the local front, Pittsburgh's unemployment rate ticked down 170 basis points (bps) this quarter as expected, after peaking in the second quarter. Pittsburgh lost 200,000 jobs, mostly in retail and hospitality, however the city's economy has weathered downturns in the past and should recover steadily.

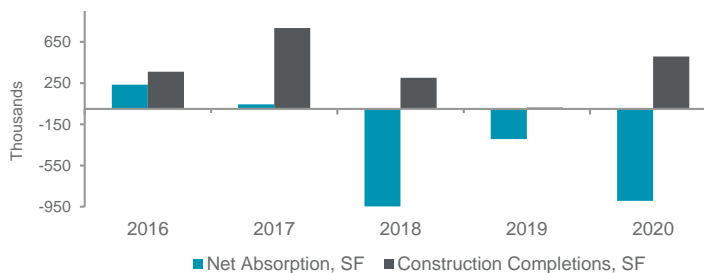
SUPPLY AND DEMAND: Vacancies Increase, Absorption Decreases

Absorption in the third quarter of 2020 ticked down, from -111,376 square feet (sf) to -426,294 sf, a concerning but unsurprising result. In addition to this trend, the vacancy rate also ticked up 140 basis points (bps). This was driven by the CBD, as well as large blocks of sublease space coming to market, a trend worth monitoring as a shift in corporate real estate strategies is presenting itself. Although Pittsburgh faces a long road back to a healthy office market, there are still innovative projects and leases on the docket, which is reassuring to prospective tenants and landlords: FNB is moving forward with their HQ, Walnut Capital broke ground on their research tower, and Aptiv completed their fit out of their 70,000 sf space at Mill 19. 1600 Smallman has been completed and is already completely leased, and the Produce Terminal is piquing the interest of desirable office and retail tenants, however not even the Strip District is immune to demand pressures as a result of the pandemic. Also, a softening of the energy and healthcare market has adversely affected some campuses in Washington County and the Parkway East, but newer inventory near Pittsburgh's STEM areas will continue to lease, likely at a slower rate than pre-COVID, and hopefully be the foundation of the office recovery.

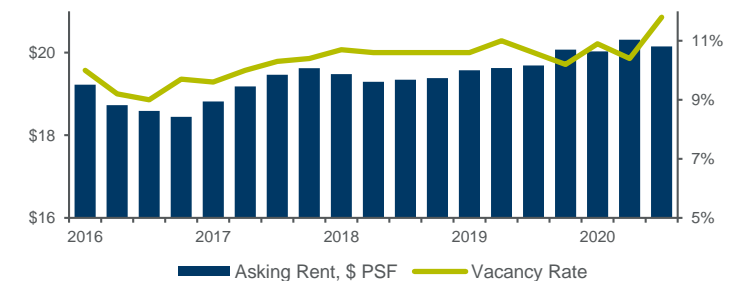
PRICING: Rents Still Stable

Asking rents are somewhat stable for office product, down \$0.16 on a link quarter basis, but adjustments in the CBD as well as less desirable suburban space are starting to present themselves. There have been drops in asking rents amongst existing Class A buildings, when landlords can afford to do so. Rents have come down a bit on the front end of leases in exchange for term. There have also been material upticks in TI and rent abatements. This will continue to sprinkle into the market, even amongst newer construction. The influx of sublease space is also likely to effect rents. In the more desirable submarkets such as Oakland, lab space continues to be leased at a premium, with rents for new product such as The Riviera setting Pittsburgh records.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Office Q3 2020

MARKET STATISTICS

| SUBMARKET | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF)** | UNDER CNSTR (SF) | OVERALL AVG ASKING RENT \$ (ALL CLASSES)* | OVERALL AVG ASKING RENT \$ (CLASS A)* |
|--------------------------|-------------------|--------------------|--------------------|----------------------|---|---------------------------------|-----------------------------|------------------|---|---------------------------------------|
| Armstrong County | 123,367 | 0 | 0 | 0.0% | - | - | 0 | - | 8.58 | 8.58 |
| Beaver County | 1,201,455 | 0 | 140,428 | 11.7% | (2,135) | 6,144 | 14,666 | - | 17.03 | - |
| Butler County | 4,696,201 | 266,601 | 262,043 | 11.3% | (169,934) | (82,522) | 79,791 | - | 22.30 | 25.35 |
| CBD | 26,281,109 | 532,201 | 3,746,824 | 16.3% | (71,798) | (315,637) | 215,500 | - | 27.04 | 29.24 |
| Fayette County | 630,275 | 12,000 | 0 | 1.9% | - | - | 0 | - | 12.00 | - |
| Greater Downtown | 12,519,700 | 344,186 | 1,111,932 | 11.6% | (64,459) | (225,033) | 199,775 | 478,217 | 26.74 | 31.82 |
| North Pittsburgh | 6,453,478 | 46,880 | 520,279 | 8.8% | (21,718) | (45,633) | 95,171 | 75,500 | 22.93 | 25.31 |
| Northeast Pittsburgh | 2,536,135 | 0 | 162,101 | 6.4% | (2,250) | (54,057) | 12,240 | - | 18.49 | 25.25 |
| Oakland | 3,153,502 | 0 | 30,806 | 1.0% | (4,840) | 160 | 15,506 | 490,000 | 25.32 | 50.00 |
| Parkway East | 10,400,548 | 23,710 | 892,795 | 8.8% | 16,813 | 24,344 | 137,981 | 735,482 | 21.28 | 21.15 |
| Parkway West | 7,389,695 | 99,442 | 739,384 | 11.4% | (13,664) | (68,444) | 93,461 | 280,380 | 21.87 | 23.46 |
| West Pittsburgh | 2,886,272 | 168,877 | 414,988 | 20.2% | (20,036) | 32,327 | 41,029 | - | 22.37 | 24.16 |
| South Pittsburgh | 6,059,686 | 39,467 | 465,442 | 8.3% | (49,677) | (52,798) | 33,537 | - | 18.67 | 23.06 |
| Washington County | 5,112,139 | 88,397 | 628,897 | 14.0% | 189 | (88,380) | 87,758 | - | 20.77 | 24.58 |
| Westmoreland County | 3,149,693 | 18,000 | 206,545 | 7.1% | (22,785) | (23,455) | 27,056 | - | 16.86 | 30.73 |
| PITTSBURGH TOTALS | 92,593,255 | 1,639,761 | 9,322,464 | 11.8% | (426,294) | (892,984) | 1,053,471 | 2,059,579 | \$20.15 | \$26.54 |

*Rental rates reflect gross asking **Does not include renewals

KEY LEASE TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---------------------|--------------|-----------------|--------|-----------|
| 20 Stanwix St | CBD | Dollar Bank | 73,768 | New Lease |
| 810 Parish St | Parkway West | Expedient | 26,080 | Renewal |
| 525 William Penn Pl | CBD | Perkins Eastman | 15,255 | New Lease |

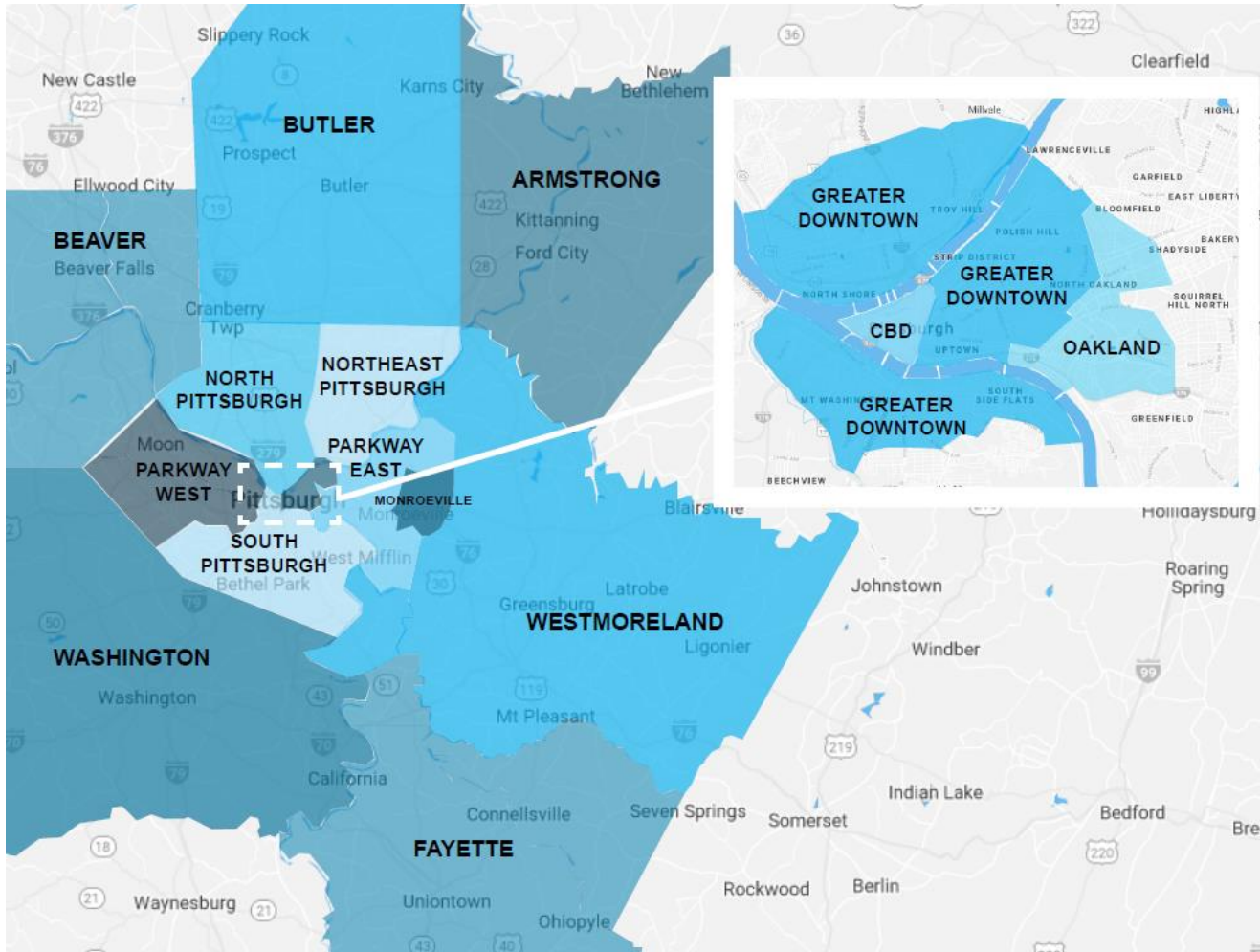
KEY SALES TRANSACTIONS Q3 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / \$ PSF |
|------------------|--------------|------------------------------|--------|-----------------------|
| 4117 Liberty Ave | Parkway East | NA / Harvey and Lenore Light | 28,262 | \$2,820,000 / \$99.78 |

KEY CONSTRUCTION COMPLETIONS YTD 2020

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER / DEVELOPER |
|-------------------|------------------|-------------------|---------|---------------------|
| 1600 Smallman St | Greater Downtown | Aurora Innovation | 120,000 | McCaffery Interests |
| Three Crossings E | Greater Downtown | Smith & Nephew | 54,471 | Oxford |

OFFICE SUBMARKETS



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